7-11-80 B 6785-1

northwest economic
indicators

NORTHWESTERN NATIONAL BANK OF MINNEAPOLIS AN AFFILIATE OF NORTHWEST BANCORPORATION

Agricultural Outlook

December 20, 1979

Highlights

- **In 1980, U.S. agricultural exports are expected to increase 20 percent, topping the record established just this year, as feed grain, wheat and soybean sales lead the way. Reaching this export potential will require extremely efficient utilization of transportation and port facilities along with orderly marketing of grain by farmers. Any major disruption would impede export growth with the consequence of lower prices for American farmers.**
- **Elimination of acreage set-aside requirements plus stronger grain prices should boost crop acreage to record levels next year. Wheat acreage is expected to show the largest increase and could lead to lower wheat prices once the 1980 crop becomes more certain. Soybean acreage probably will be reduced in 1980 as a more normal Brazilian crop combined with record U.S. supplies push soybean prices substantially below this year's level.**
- **Transportation limitations have caused corn prices to be considerably lower in the western portion of the corn belt compared to other parts of the country. This will encourage livestock feeding in that portion of the country.**
- **Despite a dramatic decline in beef supplies during the first part of 1980, a weak general economy plus large supplies of pork and poultry will keep cattle prices lower than otherwise would be possible. Nevertheless, cattle prices are expected to strengthen by the middle of next year. As a result there is a danger that cattle feedlot operators will again bid too aggressively for feeder cattle.**
- **Despite the boom in exports, net farm income is expected to drop by around 10 percent next year. Escalating production expenses will more than offset modest increases in prices received by farmers. Fuel and fertilizer are likely to pace next year's rise in farm production costs.**

Dr. Sung Won Son
Senior Vice President and
Chief Economist

Volatility characterized the agricultural scene in 1979. Livestock prices rose to new highs early in the year, then fell to unprofitable levels in the second half of the year.

Corn and soybean production set new records in the United States, while Soviet grain production plunged nearly 25 percent from a year earlier. Grain and soybean prices rose dramatically in response to adverse weather reports in both the United States and abroad. Then prices receded as it became apparent that U. S. crops would accommodate the Soviet shortfall.

Grain marketing was disrupted by strikes and transportation difficulties. Weather problems plagued crop production from start to finish. And, wet fields have prevented the harvest from being completed.

What's in store for 1980? How will overall economic conditions affect farmers?

Agricultural Trade

The brightest spot in the U.S. agricultural outlook clearly is exports, reflecting record domestic crops and the poor grain harvest in the Soviet Union. The USDA expects agricultural exports to reach a new peak of $38 billion in fiscal year 1980 (which began October 1, 1979), up 20 percent from the record set in fiscal 1979.

Although imports are also expected to climb to new highs, the agricultural trade surplus in fiscal 1980 is expected to set another record. Thus, once again, a hefty agricultural trade surplus will go a long way toward easing U.S. balance of payments problems and helping to pay for expensive petroleum imports.

The export outlook, however, is by no means certain. Transportation constraints and bottlenecks appear to be the greatest hurdle the United States faces in

achieving this enormous export expansion. Meeting this challenge requires extremely efficient utilization of transportation and port facilities along with orderly marketing of grain by farmers. Any major disruption in the grain transportation system would impede export growth, with the consequence of lower prices for American farmers.

Several other factors could slow export growth in 1980. These include weaker foreign demand as the recession spreads to other countries, balance of payment pressures in major importing countries due to escalating oil prices and a stronger U.S. dollar which would make U.S. farm products more expensive abroad. Thus, although agricultural exports will indeed expand sharply in 1980, a variety of factors could prevent exports from reaching levels projected by the USDA.

Crop Outlook

Corn: The feed grain outlook is dominated by conditions in the United States and the Soviet Union. The U.S. corn crop this year is now estimated at nearly 7.6 billion bushels, up seven percent from last year's record crop. On the other hand, the Soviets had the poorest grain harvest in four years and are turning to the United States to sustain their meat production objectives.

Sharply higher U.S. exports and moderately increased domestic use during the 1979/80 marketing year will push total utilization to record levels. Even so, U.S. carry-over stocks of corn next October probably will exceed this year's high level. Nevertheless, corn prices in 1979/80 are expected to average somewhat above last year due to the anticipated reduction in total world stocks of feed grains.

Of course, farmers have not shared equally in this year's record corn harvest. Minnesota was one of the few states which experienced a decline in yields and considerable amounts of corn still remain in the fields. Profits were further eroded as the high moisture content of the corn necessitated expensive drying.

Transportation limitations have caused corn prices to be considerably lower in the western portion of the corn belt than in other parts of the country.

Oilseed Outlook: The 1980 outlook for oilseeds is highlighted by record U.S. production. This year's soybean crop, estimated at 2.2 billion bushels, was 20 percent above last year's record crop. Both domestic and overseas demand are expected to continue to expand, but not nearly as sharply as supply. Hence, carry-over stocks of soybeans are expected to more than double next fall.

The soybean price outlook is rather pessimistic for the next year. During the past two years the United States has experienced a major upsurge in soybean export demand due primarily to two poor soybean harvests in Brazil. If Brazil experiences normal yields next spring, American farmers will experience increased competition in world markets. This combined with record U.S. supplies is expected to push soybean prices substantially below this year's level.

American farmers have nearly doubled sunflower production this year due to record plantings and yields. The development of high-oil-content hybrid seed has boosted the United States to second place in world sunflower seed production, next to the Soviet Union. Moreover, the United States is the world's largest exporter of sunflower seeds. Due to the record oilseed crop, sunflower seed prices are also expected to average below last season's level.

Wheat: A 10 percent increase in harvested acreage and a record yield resulted in a U.S. wheat crop of 2.1 billion bushels, up 18 percent from 1978, and the third largest crop ever. This big crop reflects record harvests of winter wheat in Kansas, Oklahoma and Texas. On the other hand, production of durum and other spring wheat was down six percent from last year due to decreased yields.

The wheat export picture looks bright for the current marketing year. Production in the Soviet Union declined about 30 percent. With strong export demand, utilization will likely exceed U.S. production for the second straight year, thereby reducing carry-over stocks next year. Wheat prices should remain strong until the 1980 crop becomes more certain. Increased wheat acreage in 1980, however, could weaken wheat prices considerably in the second half of 1980.

Crop Acreage: Next year will mark the first time since 1977 that an acreage set-aside program will not be in effect for wheat and feedgrains. The elimination of the set-aside requirements plus stronger grain prices should boost crop acreage to record levels next year.

Wheat acreage is expected to show the largest increase, approaching 10 percent. However, wheat production probably will not increase by the same proportions, as yields are likely to fall to more normal levels.

With corn prices strong relative to those for oilseeds, U.S. farmers are expected to devote more acreage to corn in 1980. Nevertheless, as yields drop back to more normal levels, corn production is likely to decline somewhat from the record level reached this year to around the seven billion bushel range in 1980.

In contrast to wheat and corn, soybean plantings probably will be cut back in 1980, interrupting the 42 percent expansion in soybean acreage over the past three years. This reduction in soybean acreage will be necessary to offset the expected upsurge in carry-over stocks in 1980. In parts of the Upper Midwest, however, the decline in soybean acreage may be slowed as wet fields and unfinished field work this fall delay the planting season next spring.

Sunflower seed acreage is also likely to increase much less dramatically in 1980, and could even drop from the record 1979 level.

Livestock

Hogs: U.S. pork producers have experienced a dramatic turnaround in their profits during the second half of 1979. In February, hog prices rose to their highest level since 1975. Since that time, however, record pork supplies have pushed hog prices below the cost of production.

Even though profits have been squeezed in recent months, hog producers are still planning substantial increases in production during the first half of 1980, delaying the expected cut back in pork supplies until later in the year. The modest improvement in hog prices this past November could slow the pending production cuts, thereby causing additional price weakness in 1980. Nevertheless, pork prices should strengthen throughout the year with profits returning to the industry as supplies recede during the second half of the year.

Beef: For cattle feeders, 1979 has been a year of contrasts and extremes. In 1979, commercial beef production will be down 12 percent from a year earlier. A sharp decline in feedlot placements and marketings along with record grain and soybean harvests normally signal stronger cattle prices and lower feed costs. However, competition from large supplies of poultry and pork plus a weaker economy have held beef prices down during the second half of this year while feed prices rose due to strong export demand.

During the first half of 1980, beef supplies will continue their dramatic decline, suggesting that a significant jump in beef prices is in the offing. Large supplies of pork and poultry, however, are expected to keep total meat and poultry supplies above year earlier levels at least through the first quarter of 1980.

In addition, a weak economy will certainly constrain the demand for beef. Within agriculture, the beef sector is probably the one most directly affected by a recession. And declining real consumer income is expected to have its greatest impact on the demand for beef during the first quarter of 1980. Thus, large supplies of competing meats and a weak general economy will likely keep cattle prices lower than otherwise would be possible.

Nevertheless, cattle prices are expected to strengthen by the middle of next year. Beef packing plants will experience a dramatic decline in volume during the second quarter of 1980. Supplies of competing meats will also begin to taper off. Accordingly, cattle prices could reach the $75 range by mid-year.

Since cattle feeders have been experiencing losses this fall, feeder cattle prices must be considered too high. Ranchers, of course, would say that the demand for finished cattle is too low. Cattle on feed reports, which have consistently been optimistic in the long-run, caused feedlot operators to bid aggressively for feeder cattle this past April. While feeder cattle prices have retreated from the highs of last spring, there is a danger that feedlot operators will again bid too aggressively for feeder cattle next year as finished cattle prices increase.

Farm Income

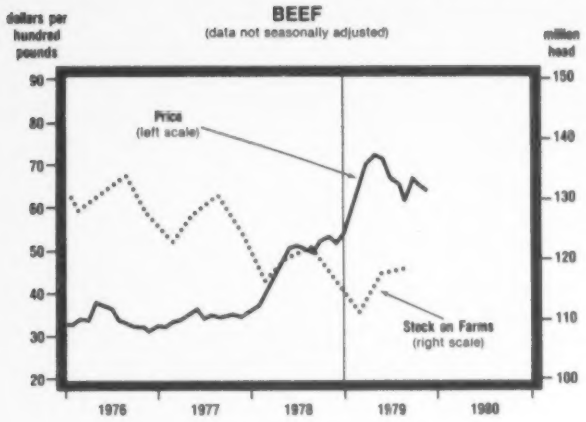
Net farm income in 1979 is expected to total just over $31 billion, the second highest in history and a gain of about 12 percent from 1978. This relatively favorable net farm income picture stems from sharply higher livestock prices in the first half of this year and a record grain harvest, with prices supported by strong export demand. Once adjustments are made for inflation, however, net farm income showed little change from the favorable level attained in 1978.

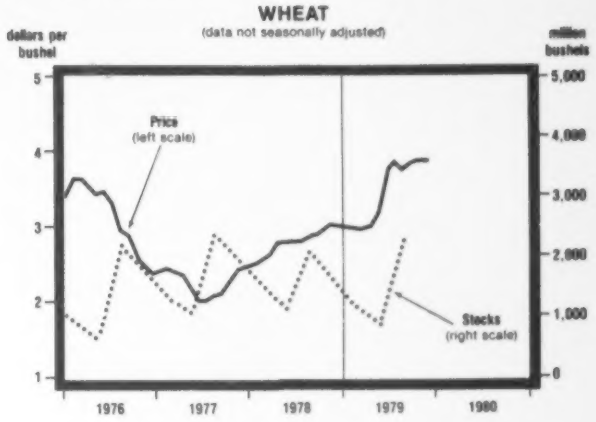
Rising food prices have made the news this past year, but farmers are also affected by inflation. Next year escalating production expenses are expected to more than offset income gains, thereby reducing net farm income. The costs of fuel and fertilizer are expected to increase the most. As a result, the USDA estimates that net farm income will decline by 20 percent in 1980.

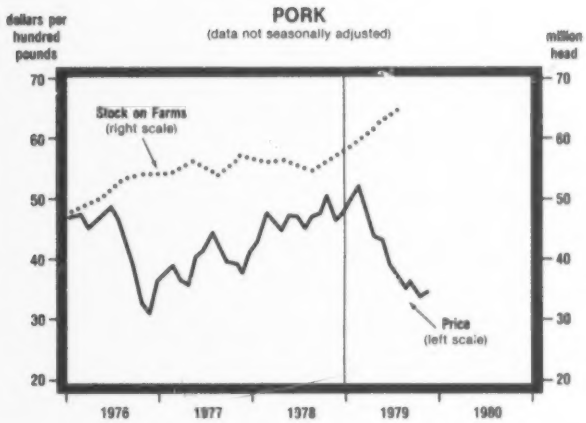
This estimate, however, is very sensitive to small changes in farm prices. A one percent increase in the prices received by farmers translates directly into a $1.3 billion increase in net farm income. USDA estimates of livestock prices in particular seem too pessimistic. Thus farm income is more likely to decline by around 10 percent next year. Moreover, the decline in net farm income will not be shared equally by all farmers. The outlook is more favorable for feed grain, feeder cattle and dairy producers.

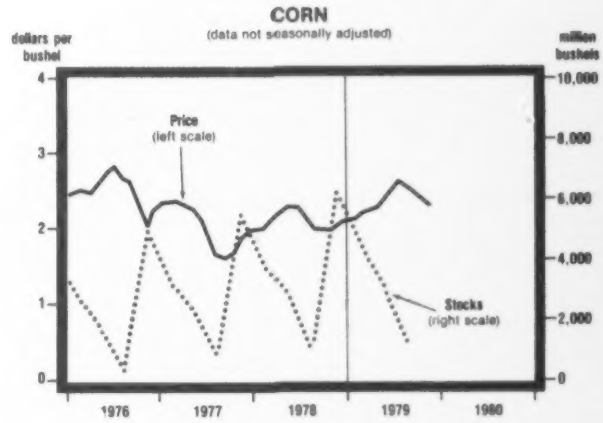
Dr. Larry J. Wipf
Assistant Vice President
Director of Regional Economics

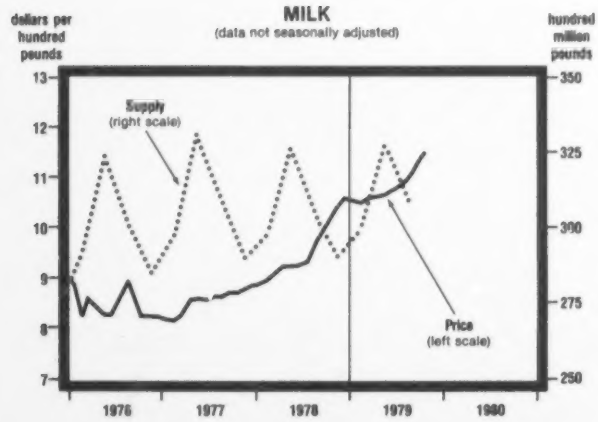
AGRICULTURAL CONDITIONS

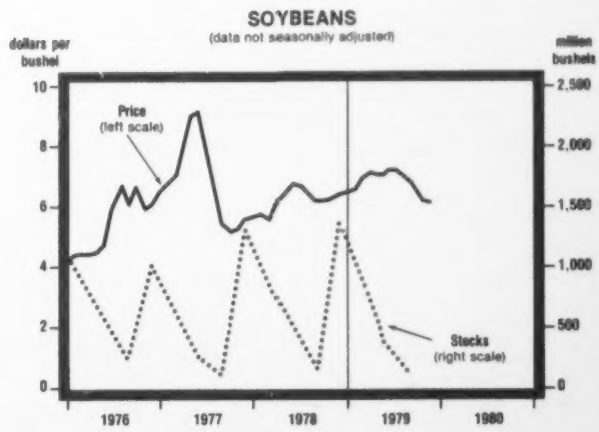






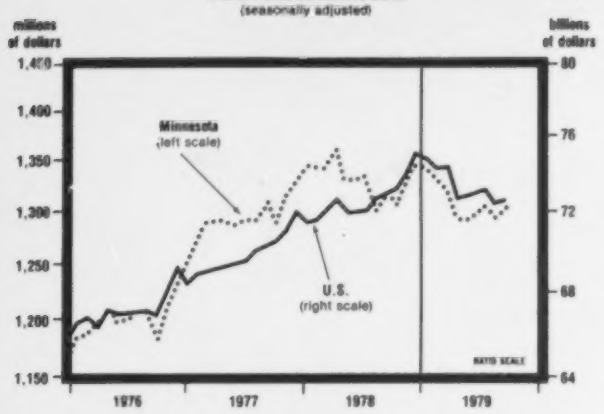




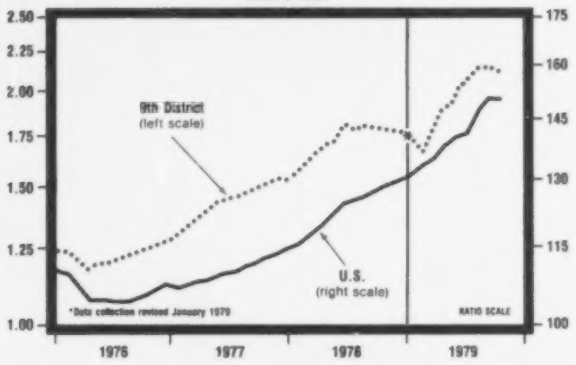


REGIONAL ECONOMIC CONDITIONS

REAL PERSONAL INCOME
(seasonally adjusted)

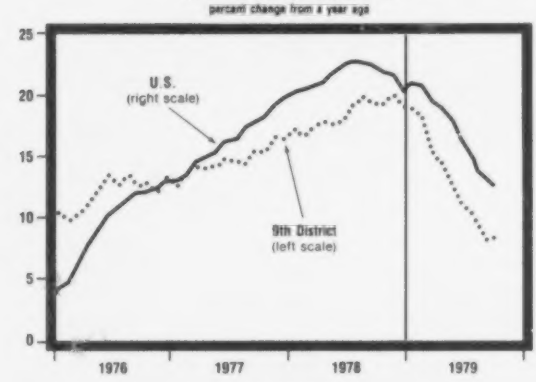


COMMERCIAL AND INDUSTRIAL LOANS
OUTSTANDING AT LARGE COMMERCIAL BANKS
(seasonally adjusted)
billions of dollars

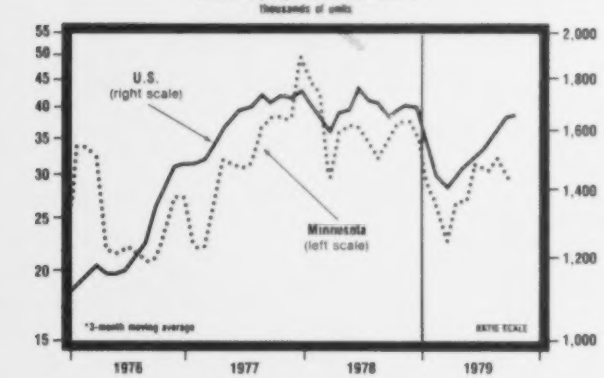


REAL RETAIL SALES
(seasonally adjusted)

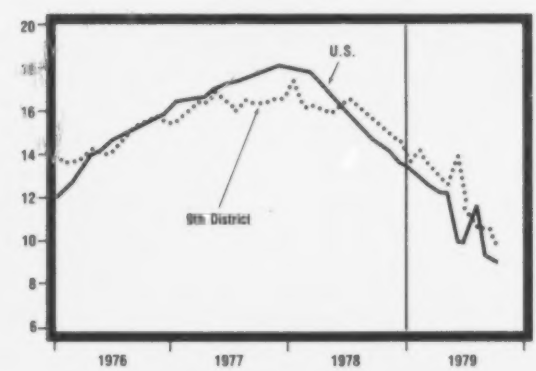
CONSUMER INSTALLMENT CREDIT
OUTSTANDING AT COMMERCIAL BANKS
percent change from a year ago



HOUSING PERMITS
HOUSING UNITS AUTHORIZED BY BUILDING PERMITS
(seasonally adjusted annual rates*)
thousands of units

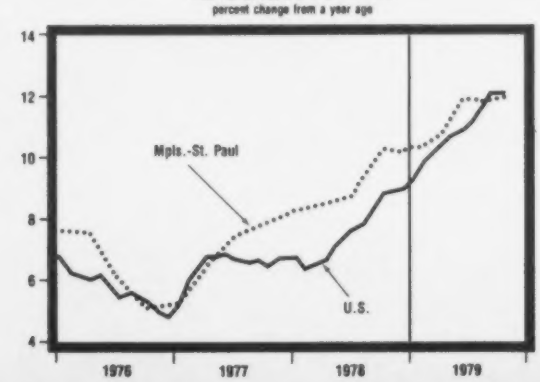


MORTGAGE LOANS
OUTSTANDING AT SAVINGS AND LOAN ASSOCIATIONS
percent change from a year ago



UNEMPLOYMENT RATES
(seasonally adjusted)
percent of labor force

CONSUMER PRICE INDEX
ALL ITEMS, ALL URBAN CONSUMERS
percent change from a year ago



Dr. Larry J. Wipf

Dr. Larry J. Wipf is an assistant vice president and director of Regional Economics at Northwestern Bank. Prior to joining the bank in March of 1979 as a senior economist, he was an economist with the Bureau of International Affairs of the U.S. Department of Labor where he worked on international trade policy issues. Larry received both his undergraduate degree in Agricultural Business Administration and his graduate degree in Agricultural Economics from the University of Minnesota, and his Ph. D. in Economics from the University of Wisconsin in Madison. A native of southwestern Minnesota, Larry was a vice president of Future Farmers of America and a Regional Star Farmer.

Northwestern National Bank of Minneapolis
Seventh & Marquette
Minneapolis, Minnesota 55480
An Affiliate of Northwest Bancorporation

BANCO

Indicators is a publication of Northwestern National Bank of Minneapolis Economics Department. For further information contact Dr. Sung Won Son, Senior Vice President and Chief Economist, (612) 372-7871; Dr. Larry J. Wipf, Assistant Vice President, Director Regional Economics, (612) 372-9281; Dr. Richard S. Smith, Assistant Vice President, Director of International Economics, (612) 372-5857; or Lola Johnson, Communications Manager, Corporate Communications, (612) 372-8027.